

31 January 2019

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**BUY**

unchanged

**PRICE TARGET** A\$1.60↑

from A\$1.55

Price (30-Jan) A\$1.03

Ticker TPW-ASX

52-Week Range (A\$):	0.37 - 1.35
Market Cap (A\$M):	116
Dividend /Shr (A\$):	0.00
Enterprise Value (A\$M):	119
Cash (A\$M):	10.5
Long-Term Debt (A\$M):	0.0

FYE Jun	2018A	2019E	2020E	2021E
Sales (A\$M)	72.6	99.9↑	124.8↑	149.8↑
Previous	-	96.1	118.6	142.4
Gross Profit (A\$M)	22.5	30.3	37.4	44.9
EBITDA (A\$M)	(0.6)	0.3↓	1.6↓	4.0↑
Previous	-	1.1	2.7	3.0
EBIT (A\$M)	(0.8)	0.1↓	1.4↓	3.8↑
Previous	-	0.9	2.5	2.8
Net Income Adj (A\$M)	(0.1)	0.1↓	1.4↓	3.8↑
Previous	-	0.9	2.5	2.8
EPS Adj&Dil (A\$)	(0.00)	0.00↓	0.01↓	0.03
Previous	-	0.01	0.02	0.03
Equity FCF (A\$)	1.2	2.0	1.8	4.0
EV/Sales (x)	1.6	1.2	0.9	0.7



Source: FactSet

Priced as of close of business 30 January 2019

## Raising Target Price

### >40% 1H19 revenue growth through breakeven

Temple & Webster (TPW) released a strong 1H19a result with revenue increasing +40% to \$49.3m (1H18a \$35.2m, CG \$46.5m) which was a +6% beat to our forecasts. The company reported a maiden positive +\$0.9m EBITDA result (1H18a -\$0.5m, CG \$0.6m) which was marginally above our estimates.

Despite a tough macro backdrop, given the weakening retail sales and slowing housing market, TPW experienced an accelerating revenue growth profile throughout FY18/1H19 (1H18a +1%, 3Q18a +22%, 4Q18a +28%, 1Q19a +39%, 2Q19a >40%) that has continued into 2H19e with Jan '19 **"exceeding the 1H19 growth rate of 40%"**.

#### Earnings revisions: Our FY19e, FY20e, FY21e revenue revised +4%, +5% and +5%.

- TPW reported a 32% increase in active customers to 231k, with the growth in TPW's gross profit (+43%) materially stronger than growth in active customers (+32%) and marketing spend (+32%) reflecting improving unit economics/repeat customers (figure 6). TPW contribution margin (GPAPA, gross profit after all variable costs incl. marketing) improved to 16.5% (1H18a 16.1%) and remains within TPW's target range of 15%-17%, aided by efficient marketing spend which reduced as a percentage of revenue (1H19a 10.9%, 1H18a 11.5%).
- The company ended 1H19a with \$11.5m cash on hand (FY18a \$9.9m, no debt) with TPW reporting five consecutive quarters of positive FCF. TPW reports a negative working capital business model, with growth largely self funded as the business scales.
- TPW has historically managed the business to breakeven; however, the company is now able to reinvest incremental gross profit (FY19e Δ gross profit ↑ \$9m pa) in various growth initiatives to extend its leadership position. These include 1) increasing new product categories (home improvements/DIY/offshore suppliers/Private Label); 2) entering new markets (New Zealand FY19); 3) enhancing technology (mobile app 4Q19, VR) to improve customer experience and conversion rates; 4) expanding B2B/Trade & Commercial (>10k trade accounts, ~7% cont. to revenue, +35% growth y/y); 5) increasing S&M spend to drive brand awareness (2.9x GP/CAC [Fig 6], TPW ~25% Aust. brand awareness vs. Wayfair ~85%); and 6) improving in-house logistics for bulky items (>50% volume).
- TPW is exposed to the online mega trend given the structural shift to online coupled with increasing number of millennials entering the furniture and homewares category who are more accustomed to purchasing goods online (online spend growth for <30yo +21% vs. >40yo +10% growth).
- Given TPW's category position and long tailed growth opportunity we expect management to maintain a breakeven mantra and reinvest to capture the long term opportunity (0.6% category share, FY19-FY22 >\$70m gross profit accretion, \$10.5m cash). Assuming TPW can achieve 25% online category share (currently ~14%), with online penetration increasing to 14% (currently 4%, US/UK 14%), we see the potential for TPW to generate \$476m revenue, deriving a ~\$4.45ps valuation (10x implied EBIT multiple on 10% scaled EBIT margins).

**Following modest revisions to our forecasts, we increase our DCF-based valuation to \$1.60ps (previously \$1.55ps). BUY recommendation retained.**

Figure 1: Financial forecasts for TPW

						Target Price \$ 1.60					
						Share Price \$ 1.15					
Temple & Webster (TPW)	2017A	2018A	2019F	2020F	2021F	2017A	2018A	2019F	2020F	2021F	
<b>Profit &amp; Loss (\$m) - Jun YE</b>						<b>Valuation ratios</b>					
<b>Sales Revenue</b>	64.5	72.6	99.9	124.8	149.8	EPS (cps)	-0.07	0.00	0.00	0.01	0.03
COGS/Fullfillment	-46.7	-50.0	-69.6	-87.4	-104.8	Enterprise Value (\$m) - pro-for	120.6	119.4	117.5	115.7	111.7
<b>Gross Profit</b>	17.8	22.5	30.3	37.4	44.9	EV/Revenue	1.9	1.6	1.2	0.9	0.7
Marketing	-8.2	-8.1	-11.5	-15.0	-18.0	<b>EV/Gross Profit</b>	6.8	5.3	3.9	3.1	2.5
Opex	-16.4	-15.0	-18.5	-20.8	-23.0	EV/GPAPA	12.5	8.3	6.2	5.1	4.1
<b>EBITDA</b>	-6.8	-0.6	0.3	1.6	4.0	EV / EBITDA (x)	-17.8	-203.8	364.8	70.9	28.0
D & A	-0.6	-0.2	-0.2	-0.2	-0.2	EV / EBIT (x)	-16.3	-144.3	962.7	80.8	29.5
<b>EBIT</b>	-7.4	-0.8	0.1	1.4	3.8	<b>P/E (x)</b>	nmf	nmf	nmf	nmf	nmf
Net Interest Expense	0.3	0.1	0.0	0.0	0.0	DPS (cps)	0.0	0.0	0.0	0.0	0.0
<b>NPBT</b>	-7.2	-0.7	0.1	1.4	3.8	Div yield (%) - 100% franked	0%	0%	0%	0%	0%
Tax expense	2.1	0.7	0.0	0.0	0.0	Payout ratio (%)	0%	0%	0%	0%	0%
<b>NPAT (Normalised)</b>	-3.4	-0.1	0.1	1.4	3.8	<b>Dupont Analysis</b>	2017A	2018A	2019F	2020F	2021F
Non-recurring	-2.7	0.0	0.0	0.0	0.0	Net Profit Margin	-5.3%	-0.1%	0.1%	1.1%	2.5%
<b>NPAT (Reported)</b>	-7.8	0.0	0.1	1.4	3.8	Asset Turnover	3.4	3.3	3.6	4.1	4.2
Gross Profit Margin (%)	27.6%	31.1%	30.3%	30.0%	30.0%	ROA (%)	-18.1%	-0.2%	0.4%	4.7%	10.5%
CODB margin (%)	38.1%	31.9%	30.0%	28.7%	27.3%	Financial Leverage	1.9	2.0	2.1	2.1	1.9
EBITDA Margin (%)	-10.5%	-0.8%	0.3%	1.3%	2.7%	ROE (%)	-34.0%	-0.5%	0.9%	9.7%	20.5%
EBIT Margin (%)	-11.5%	-1.1%	0.1%	1.1%	2.5%	ROIC (%)	-398.6%	-16.4%	8.7%	141.2%	452.5%
NPAT Margin (%)	-5.3%	-0.1%	0.1%	1.1%	2.5%	<b>Balance Sheet ratios</b>	2017A	2018A	2019F	2020F	2021F
<b>Cash Flow (\$m) - Jun YE</b>						Net Debt (cash)	-8.7	-9.9	-11.9	-13.7	-17.7
<b>Operating EBITDA</b>	-6.8	-0.6	0.3	1.6	4.0	NTA per share (\$)	0.02	0.03	0.05	0.06	0.10
- Interest & Tax Paid	0.3	0.1	0.0	0.0	0.0	Price / NTA (x)	50.8	37.4	22.3	17.9	11.7
+/- change in Work. Cap.	-1.1	1.8	2.2	0.7	0.5	Shares on issue	105.7	107.6	112.5	112.5	112.5
- other	0.0	0.0	0.0	0.0	0.0	EFPOWA (m)	105.7	107.6	112.5	112.5	112.5
<b>Operating Cashflow</b>	-7.6	1.3	2.5	2.3	4.5	<b>Assumptions</b>	2017A	2018A	2019F	2020F	2021F
- Capex	-0.1	-0.1	-0.5	-0.5	-0.5	Revenue Growth	5%	13%	38%	25%	20%
- Aquisitions/divestments	-2.0	0.0	0.0	0.0	0.0	Gross Profit Margin	28%	31%	30%	30%	30%
<b>Free Cashflow</b>	-9.7	1.2	2.0	1.8	4.0	Contribution Margin	15%	20%	19%	18%	18%
- Ord Dividends	0.0	0.0	0.0	0.0	0.0	Opex Growth	1%	-9%	23%	13%	10%
- Equity /other	0.0	0.0	0.0	0.0	0.0	<b>Interim Analysis</b>	2H17A	1H18A	2H18A	1H19E	2H19E
<b>Net Cashflow</b>	-9.7	1.2	2.0	1.8	4.0	Revenues	30.4	34.4	38.2	49.3	50.6
Cash at beginning of period	18.4	8.7	9.9	11.9	13.7	Gross Profit	8.9	10.6	12.0	15.1	15.2
+/- borrowings / other	0.0	0.0	0.0	0.0	0.0	EBIT	-2.3	-0.9	0.1	0.8	-0.7
<b>Cash at end of period</b>	8.7	9.9	11.9	13.7	17.7	EBIT margin (%)	-7.7%	-2.7%	0.2%	1.6%	-1.3%
<b>Balance Sheet - Jun YE</b>						DPS	0.0	0.0	0.0	0.0	0.0
Cash	8.7	9.9	11.9	13.7	17.7	<b>Valuation</b>					
Debtors	0.0	0.0	0.0	0.0	0.0	<b>Discounted Cash flow</b>					
Inventory	1.4	2.2	3.5	4.3	5.3	Beta		1.4	WACC		10.1%
PPE	0.2	0.2	0.5	0.8	1.1	Cost of equity		10.1%	Discount period		6 years
Intangibles	7.7	7.5	7.5	7.5	7.5	EFPOWA*		112.5	DCF		1.60
Other assets	0.9	1.8	4.4	4.4	4.4	<b>Board of Directors / Substantial Shareholders</b>					
<b>Total Assets</b>	18.9	21.7	27.8	30.7	35.9	<b>Board of Directors</b>				Shareholding	%
Borrowings	0.0	0.0	0.0	0.0	0.0	Susan Thomas				0.0	0.0%
Trade Creditors	7.3	9.4	12.8	14.3	15.7	Conrad Yiu				3.2	2.9%
Other Liabilities	1.5	1.5	1.7	1.7	1.7	Stephen Heath				0.2	0.2%
<b>Total Liabilities</b>	8.8	10.9	14.5	16.0	17.4						
<b>NET ASSETS</b>	10.0	10.8	13.3	14.7	18.5						

Source: Canaccord Genuity estimates

Figure 2: Key divisional drivers of TPW, P&L and balance sheet

Profit & Loss		FY16A	1H17A	2H17A	FY17A	1H18A	2H18A	FY18A	1H19E	2H19E	FY19E	FY20E	FY21E	FY22E
Revenue	A\$m	61.7	34.0	30.4	64.5	34.4	38.2	72.6	49.3	50.6	99.9	124.8	149.8	176.0
Growth			6%	3%	5%	1%	25%	13%	43%	33%	38%	25%	20%	18%
COGS	A\$m	-37.0	-19.8	-17.2	-37.0	-19.2	-21.2	-40.5	-27.3	-28.3	-55.6	-71.1	-86.9	-105.6
COGS Margin	%	60%	58%	57%	57%	56%	56%	56%	55%	56%	56%	57%	58%	60%
Fulfilment expenses	A\$m	-11.2	-5.4	-4.3	-9.7	-4.6	-4.9	-9.6	-6.9	-7.1	-14.0	-16.2	-18.0	-19.4
Fulfilment Margin	%	18%	16%	14%	15%	13%	13%	13%	14%	14%	14%	13%	12%	11%
Gross Profit	A\$m	13.5	8.9	8.9	17.8	10.6	12.0	22.5	15.1	15.2	30.3	37.4	44.9	51.0
Gross Profit Margin	%	22%	26%	29%	28%	31%	31%	31%	31%	30%	30%	30%	30%	29%
Marketing	A\$m	-12.0	-4.7	-3.4	-8.2	-4.1	-4.1	-8.1	-5.4	-6.1	-11.5	-15.0	-18.0	-21.1
Opex	A\$m	-16.3	-9.0	-7.4	-16.4	-7.3	-7.7	-15.0	-8.8	-9.7	-18.5	-20.8	-23.0	-24.6
Total Opex	A\$m	-28.3	-13.7	-10.8	-24.6	-11.4	-11.8	-23.1	-14.2	-15.7	-29.9	-35.8	-40.9	-45.7
EBITDA	A\$m	-14.8	-4.9	-1.9	-6.8	-0.8	0.2	-0.6	0.9	-0.6	0.3	1.6	4.0	5.3
Depreciation and Amortisation	A\$m	-0.5	-0.2	-0.4	-0.6	-0.1	-0.1	-0.2	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2
EBIT	A\$m	-15.3	-5.1	-2.3	-7.4	-0.9	0.1	-0.8	0.8	-0.7	0.1	1.4	3.8	5.1
Net Interest	A\$m	-4.4	0.2	0.1	0.3	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
NPBT	A\$m	-19.6	-4.9	-2.3	-7.2	-0.9	0.1	-0.7	0.8	-0.7	0.1	1.4	3.8	5.1
Tax Expense	A\$m	5.9	1.5	0.7	2.1	0.3	0.4	0.7	0.0	0.0	0.0	0.0	0.0	0.0
NPAT (Normalised)	A\$m	-13.8	-3.4	-1.6	-5.0	-0.6	0.6	-0.1	0.8	-0.7	0.1	1.4	3.8	5.1
Non-recurring	A\$m	-30.7	-2.0	-0.8	-2.7	-0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NPAT (Reported)	A\$m	-44.4	-5.4	-2.4	-7.8	-0.9	0.9	0.0	0.8	-0.7	0.1	1.4	3.8	5.1
EFPOWA	#	105.8	105.7	105.7	105.7	107.6	107.6	107.6	112.5	112.5	112.5	112.5	112.5	112.5
EPS	cps	-0.42	-0.05	-0.02	-0.07	-0.01	0.01	0.00	0.01	-0.01	0.00	0.01	0.03	0.05
Balance Sheet		FY16A	1H17A	2H17A	FY17A	1H18A	2H18A	FY18A	1H19E	2H19E	FY19E	FY20E	FY21E	FY22E
Cash	A\$m	18.4	12.3	8.7	8.7	8.8	9.9	9.9	11.5	11.9	11.9	13.7	17.7	22.6
Receivables	A\$m	0.1	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Inventory	A\$m	3.5	3.2	1.4	1.4	2.0	2.2	2.2	3.4	3.5	3.5	4.3	5.3	6.4
PPE	A\$m	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.3	0.5	0.5	0.8	1.1	1.4
Intangibles	A\$m	7.3	7.2	7.7	7.7	7.6	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5
Other	A\$m	1.0	0.4	0.9	0.9	1.0	1.8	1.8	4.4	4.4	4.4	4.4	4.4	4.4
Assets	A\$m	30.6	23.4	18.9	18.9	19.8	21.7	21.7	27.1	27.8	27.8	30.7	35.9	42.3
Payables	A\$m	9.1	8.5	5.5	5.5	6.7	7.2	7.2	8.0	9.4	9.4	10.9	12.3	13.6
Deferred Revenue	A\$m	3.9	1.9	1.6	1.6	2.0	1.9	1.9	3.4	3.4	3.4	3.4	3.4	3.4
Provisions	A\$m	0.7	1.3	1.2	1.2	1.0	1.1	1.1	1.7	1.7	1.7	1.7	1.7	1.7
Interest bearing liabilities	A\$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	A\$m	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities	A\$m	14.3	12.2	8.8	8.8	10.3	10.9	10.9	13.1	14.5	14.5	16.0	17.4	18.7
Equity	A\$m	16.4	11.2	10.0	10.0	9.6	10.8	10.8	14.0	11.5	11.5	12.9	16.7	21.8
ROE	%	-84.0%	-49.6%	-30.0%	-42.1%	-12.4%	11.0%	11.0%	12.9%	-10.6%	-10.6%	11.7%	25.6%	26.6%
Working Capital	A\$m	-5.5	-5.2	-4.1	-4.1	-4.5	-4.9	-4.9	-4.6	-5.9	-5.9	-6.5	-7.0	-7.1
Cash Flow Statement		FY16A	1H17A	2H17A	FY17A	1H18A	2H18A	FY18A	1H19E	2H19E	FY19E	FY20E	FY21E	FY22E
EBITDA	A\$m	-14.8	-4.9	-1.9	-6.8	-0.8	0.2	-0.6	0.9	-0.6	0.3	1.6	4.0	5.3
Change in working capital	A\$m	-1.1	0.9	-1.9	-1.1	0.9	0.9	1.8	0.9	1.3	2.2	0.7	0.5	0.1
Net interest paid	A\$m	0.2	0.0	0.3	0.3	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Income taxes paid	A\$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net operating cash flows	A\$m	-15.7	-4.1	-3.5	-7.6	0.1	1.1	1.3	1.8	0.7	2.5	2.3	4.5	5.4
Payments for PPE/Intangibles	A\$m	-0.4	-0.1	-0.1	-0.1	0.0	0.0	-0.1	-0.3	-0.3	-0.5	-0.5	-0.5	-0.5
Other/Acquisitions	A\$m	-13.7	-2.0	0.0	-2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net investing cash flows	A\$m	-14.1	-2.0	-0.1	-2.1	0.0	0.0	-0.1	-0.3	-0.3	-0.5	-0.5	-0.5	-0.5
Proceeds from issue of securities	A\$m	61.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net borrowings	A\$m	12.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other/Dividends	A\$m	-27.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net financing cash flows	A\$m	46.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net change in cash held	A\$m	16.5	-6.1	-3.6	-9.7	0.1	1.1	1.2	1.6	0.4	2.0	1.8	4.0	4.9
Cash at beginning of period	A\$m	1.9	18.4	18.4	18.4	8.7	8.8	8.7	9.9	11.5	9.9	11.9	13.7	17.7
Cash at end of period	A\$m	18.4	12.3	14.9	8.7	8.8	9.9	9.9	11.5	11.9	11.9	13.7	17.7	22.6

Source: Canaccord Genuity estimates

## CGAu Earnings Revisions

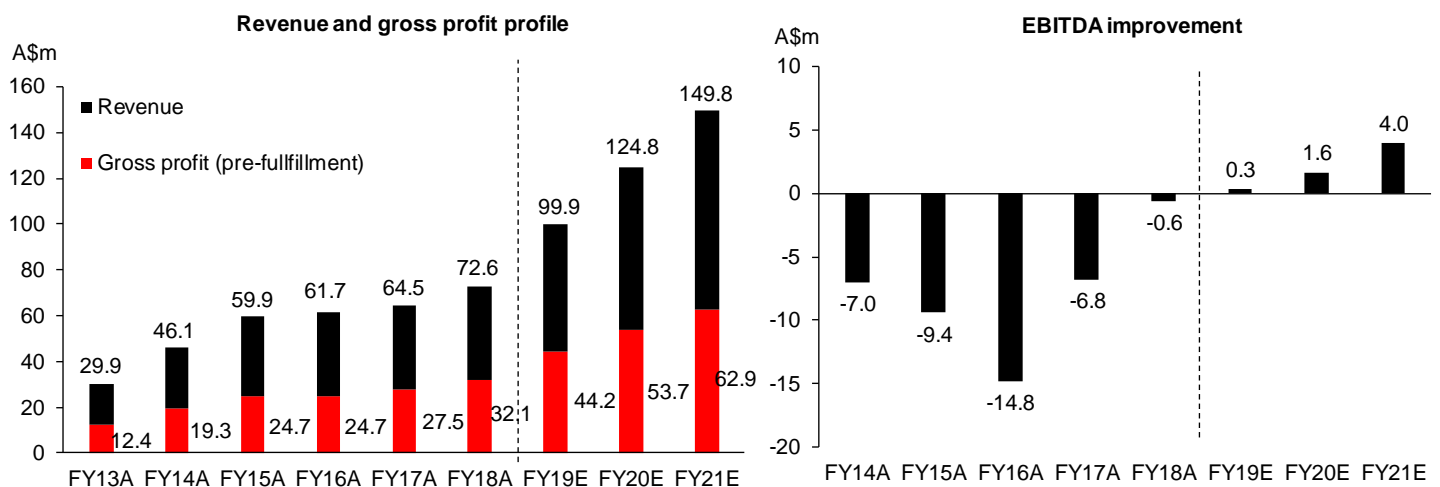
- We have made slight adjustments to our revenue and gross profit estimates.

Figure 3: CGAu earnings revisions

		Actual			1H19E			FY19E			FY20E		
		FY16A	FY17A	FY18A	Previous	Current	Diff (%)	Previous	Current	Diff (%)	Previous	Current	Diff (%)
Revenue	A\$m	61.7	64.5	72.6	46.5	49.3	6.0%	96.1	99.9	3.9%	118.6	124.8	5.2%
COGS	A\$m	-37.0	-37.0	-40.5	-26.5	-27.3	3.0%	-54.8	-55.6	1.5%	-68.6	-71.1	3.7%
Fulfillment	A\$m	-11.2	-9.7	-9.6	-5.6	-6.9	23.2%	-11.5	-14.0	21.5%	-14.2	-16.2	14.3%
<b>Gross Profit</b>	<b>A\$m</b>	<b>13.5</b>	<b>17.8</b>	<b>22.5</b>	<b>14.4</b>	<b>15.1</b>	<b>4.9%</b>	<b>29.8</b>	<b>30.3</b>	<b>1.6%</b>	<b>35.6</b>	<b>37.4</b>	<b>5.2%</b>
Gross Profit Margin	%	21.9%	27.6%	31.1%	31.0%	30.6%		31.0%	30.3%		30.0%	30.0%	
Marketing	A\$m	-12.0	-8.2	-8.1	-5.6	-5.4	-3.6%	-11.5	-11.5	-0.3%	-14.2	-15.0	5.5%
<b>GPAPA</b>	<b>A\$m</b>	<b>1.5</b>	<b>9.6</b>	<b>14.4</b>	<b>8.8</b>	<b>9.7</b>	<b>10.2%</b>	<b>18.3</b>	<b>18.8</b>	<b>2.7%</b>	<b>21.4</b>	<b>22.5</b>	<b>5.0%</b>
GPAPA margin	%	2.4%	14.9%	19.9%	18.9%	19.7%		19.0%	18.8%		18.0%	18.0%	
Opex	A\$m	-16.3	-16.4	-15.0	-8.3	-8.8	6.0%	-17.2	-18.5	7.4%	-18.6	-20.8	12.0%
<b>EBITDA</b>	<b>A\$m</b>	<b>-14.8</b>	<b>-6.8</b>	<b>-0.6</b>	<b>0.6</b>	<b>0.9</b>	<b>50.0%</b>	<b>1.1</b>	<b>0.3</b>	<b>-70.7%</b>	<b>2.7</b>	<b>1.6</b>	<b>-39.6%</b>
D&A	A\$m	-0.5	-0.6	-0.2	-0.1	-0.1		-0.2	-0.2		-0.2	-0.2	
<b>EBIT</b>	<b>A\$m</b>	<b>-15.3</b>	<b>-7.4</b>	<b>-0.8</b>	<b>0.5</b>	<b>0.8</b>	<b>60.0%</b>	<b>0.9</b>	<b>0.1</b>	<b>-86.4%</b>	<b>2.5</b>	<b>1.4</b>	<b>-42.7%</b>
Net interest	A\$m	-4.4	0.3	0.1	0.0	0.0		0.0	0.0		0.0	0.0	
Tax	A\$m	5.9	2.1	0.7	0.0	0.0		0.0	0.0		0.0	0.0	
<b>NPAT</b>	<b>A\$m</b>	<b>-13.8</b>	<b>-5.0</b>	<b>-0.1</b>	<b>0.5</b>	<b>0.8</b>	<b>60.0%</b>	<b>0.9</b>	<b>0.1</b>	<b>-86.4%</b>	<b>2.5</b>	<b>1.4</b>	<b>-42.7%</b>
EPS	cps	-0.4	0.0	0.0	0.0	0.0		0.0	0.0		0.0	0.0	
DPS	cps	0.0	0.0	0.0	0.0	0.0		0.0	0.0		0.0	0.0	
Capex	A\$m	-0.2	-0.1	-0.1	-0.3	-0.3		-0.5	-0.5		-0.5	-0.5	
Net debt	A\$m	18.4	8.7	9.9	10.4	11.5	10.6%	11.0	11.9	8.3%	13.8	13.7	-0.6%

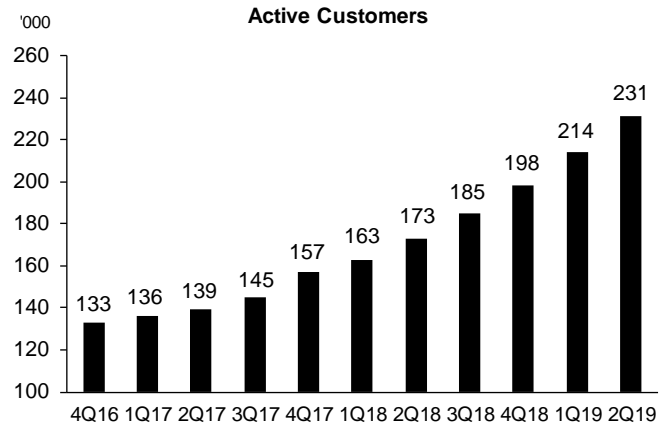
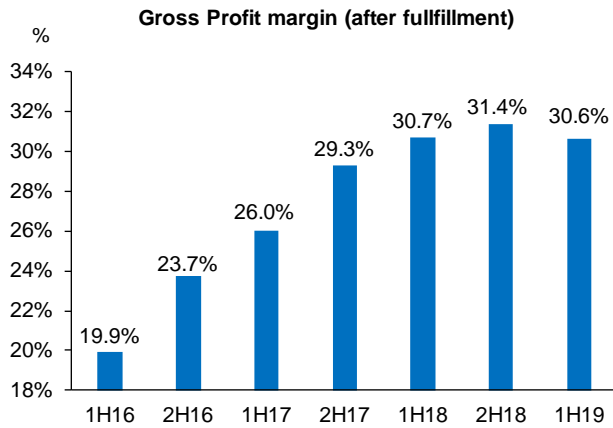
Source: Canaccord Genuity estimates

Figure 4: Revenue and gross profit growth and EBITDA improvements (passing breakeven)

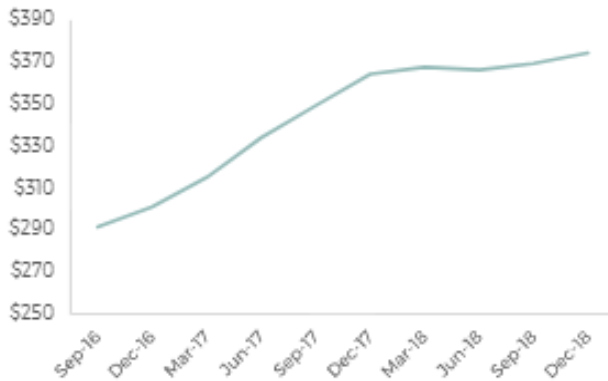


Source: Canaccord Genuity estimates

Figure 5: Key metrics improving



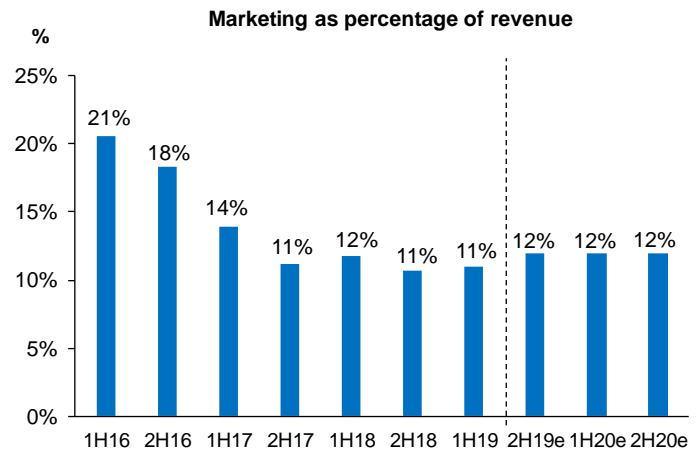
Revenue per Active Customer<sup>3</sup>



Conversion Rate<sup>4</sup>



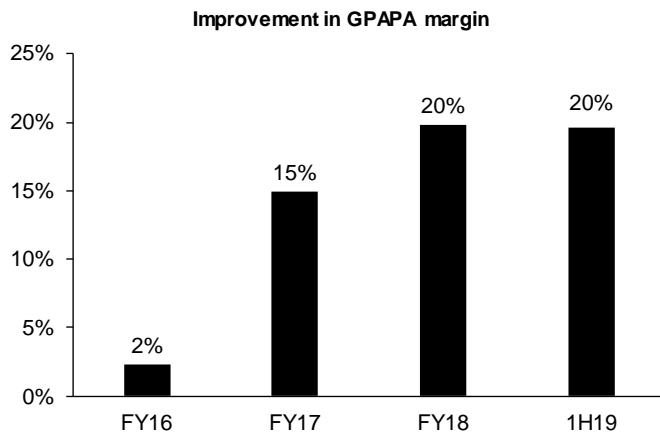
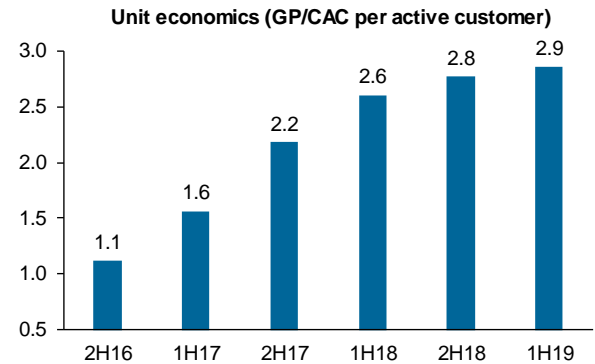
Repeat and First Time Orders



Source: Canaccord Genuity estimates

Figure 6: TPW unit economics and operating leverage to growth (incremental revenue growth at 20% margins).

		Jun-16	Dec-16	Jun-17	Dec-17	Jun-18	Dec-18
		2H16	1H17	2H17	1H18	2H18	1H19
Revenue (trailing)	A\$m	62	64	64	65	73	87
Gross Profit (trailing)	A\$m	13	16	18	19	23	27
Active Customers (000s)	#	133	139	157	173	198	231
Net additions (000s)	#		6	18	16	25	33
Marketing (trailing)	A\$m	12	10.1	8.2	7.5	8.1	9.5
CAC (new active)	A\$		1691	453	468	325	287
CAC (all users)	A\$	90.2	73.0	52.0	43.3	41.1	41.0
ARPU	A\$m	463	457	411	375	367	379
Avg. Gross Profit PU	A\$m	101	114	113	113	114	117
Unit economics	x	1.1	1.6	2.2	2.6	2.8	2.9



	FY16	FY17	FY18	1H19
Revenue	100%	100%	100%	100%
COGS	60%	57%	56%	55%
<b>Gross margin</b>	<b>40%</b>	<b>43%</b>	<b>44%</b>	<b>45%</b>
Fulfillment costs	18%	15%	13%	14%
Delivered margin	22%	28%	31%	31%
Marketing	19%	13%	11%	11%
<b>GPAPA</b>	<b>2%</b>	<b>15%</b>	<b>20%</b>	<b>20%</b>

		FY19	Earnings leverage to revenue			
Revenue	A\$m	100	125.0	150.0	200.0	250.0
GPAPA margin	%	20%	20%	20%	20%	20%
GPAPA	A\$m	19.6	25.0	30.0	40.0	50.0
Opex	A\$m	-18.5	-18.5	-18.5	-18.5	-18.5
<b>EBITDA</b>	<b>A\$m</b>	<b>1.1</b>	<b>6.5</b>	<b>11.5</b>	<b>21.5</b>	<b>31.5</b>
<b>EV/EBITDA</b>	<b>x</b>		<b>18.4</b>	<b>10.4</b>	<b>5.6</b>	<b>3.8</b>

Source: Company Reports, Canaccord Genuity estimates

- The scale of the TPW opportunity is large given the immature state of the online furniture and homewares market. The table below illustrates the sensitivity of online penetration in the Australian furniture and homewares market relative to TPW's current market share.
- Assuming the total furniture and homewares market reaches an equivalent 14% online penetration rate (A\$1.9b) with TPW achieving a +25% market share, we derive a A\$476m revenue opportunity and A\$4.45ps valuation (10x implied EBIT multiple on 10% scaled EBIT margins).

Figure 7: 14% online penetration, 25% market share derives A\$476m revenue and ~\$4.50ps val.

Aus Market		%	Online Penetration					14%
			3.8%	6%	8%	10%	12%	
	A\$m		517	816	1,088	1,360	1,632	1,904
Aus Market	14%		72	114	152	190	228	267
Share of	20%		103	163	218	272	326	381
Online	25%		129	204	272	340	408	476
Furniture	30%		155	245	326	408	490	571
	35%		181	286	381	476	571	666

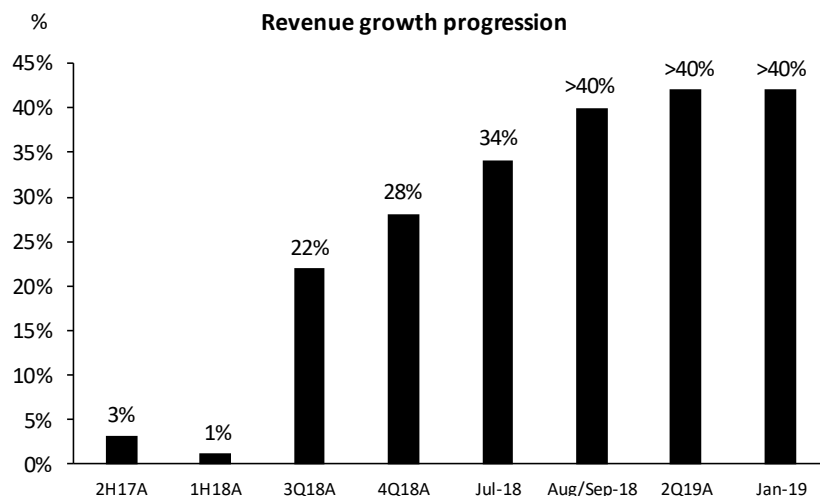
US/UK  
Current

Valuation \$ps (10x EBIT multiple at 10% margins)		%	Online Penetration					14%
			3.8%	6%	8%	10%	12%	
Aus Market	14%		0.68	1.07	1.42	1.78	2.14	2.49
Share of	20%		0.97	1.53	2.03	2.54	3.05	3.56
Online	25%		1.21	1.91	2.54	3.18	3.81	4.45
Furniture	30%		1.45	2.29	3.05	3.81	4.58	5.34
	35%		1.69	2.67	3.56	4.45	5.34	6.23

Source: Company Reports, Canaccord Genuity estimates

Figure 8: TPW revenue growth progression since 2H17a.



Source: Company Reports, Canaccord Genuity estimates

## Appendix: Important Disclosures

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### Investment Recommendation

Date and time of first dissemination: January 30, 2019, 15:00 ET

Date and time of production: January 30, 2019, 07:03 ET

### Target Price / Valuation Methodology:

Temple and Webster - TPW

We derive our target price based on a DCF methodology (\$1.60ps,  $K_e$  9.3%,  $\beta$  1.2x, ERP 5.5%):

- Our terminal value incorporates a long-term cash EBIT margin of 10% (gross profit margin 30%, steady state S&M expense 10%, capex/G&A 10%) on our FY24e revenue expectations of \$215m (6-year revenue CAGR +18%). Our revenue CAGR is derived from category growth (+14%) and slight share gain (+4%).
- We assume a terminal EBIT multiple of 10x which is broadly in line with its ASX industrial peers.

### Risks to achieving Target Price / Valuation:

Temple and Webster - TPW

**Increased competition in a post Amazon world:** We expect increased competition given the size of the potential market, especially from brick-and-mortar stores expanding online and Amazon. In other retail categories, online players have proved to be more competitive than store-based operators as the cost to do business is significantly reduced. TPW's broad catalogue, supply chain, delivery and customer service are current competitive advantages; however, this can be copied and could be managed more effectively by other retailers with an established presence, operating history and a large customer base. A meaningful rise in competition may materially shift TPW's customer retention and acquisition costs which could ultimately compromise margins and top-line momentum. We note there is upside if competition is weaker than expected and downside if Amazon's offering in this category improves rapidly.

**Housing market downturn impacting Australian retail environment:** Home furnishing retailers are historically correlated to housing trends and we believe the upturn in the Australian housing market over the last 2 years has aided TPW's growth. We believe an economic slowdown is a risk to TPW as consumers tend to limit spending on bigger-ticket, discretionary products. In addition, stocks in this industry are typically rate sensitive.

**Key supplier and counterparty risk:** TPW largely acts as a bridge to suppliers and therefore carries minimal inventory and is self-funding. However, this makes TPW highly dependent on suppliers, and losing key vendors could result in reduced sales. We expect that finding new suppliers on favourable terms, in a timely manner or in sufficient volume, may be challenging for the group. In addition, there is reputation risk to the Temple & Webster brand if a vendor's products do not meet customer expectations.

**Operational and technological failure:** TPW is reliant on its online platform and supply chain to deliver a premium shopping experience from initial browsing to having an order fulfilled. Operational disruption within the order process (i.e.: system failure to its websites or to third-party suppliers) could impact the group's ability to deliver the correct items on time to a customer, which may negatively affect the Temple & Webster brand and reputation.

**Marketing strategy fatigue:** TPW may experience marketing strategy fatigue with a growing customer base. The frequency of TPW's marketing may be underestimated or overestimated and have the result of reducing sales conversion rates. If the group does not make efficient use of data analytics, update its segment listings and decide accurately when to deploy re-engagement campaigns to improve performance metrics, this could adversely affect financial and operational performance.



**Distribution of Ratings:**

**Global Stock Ratings (as of 01/30/19)**

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	560	62.78%	47.50%
Hold	200	22.42%	30.00%
Sell	12	1.35%	25.00%
Speculative Buy	120	13.45%	69.17%
	892*	100.0%	

\*Total includes stocks that are Under Review

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**SELL:** The stock is expected to generate negative risk-adjusted returns during the next 12 months.

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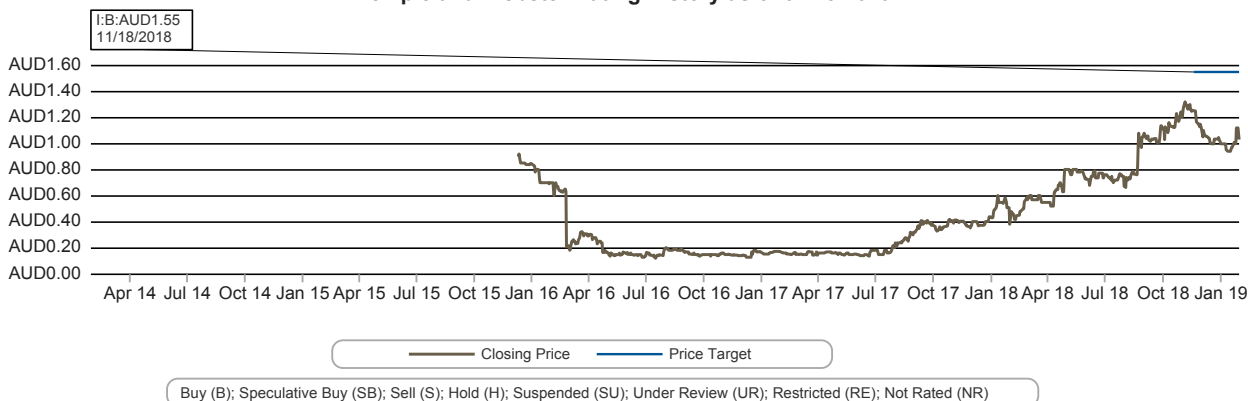
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**Temple and Webster Rating History as of 01/29/2019**



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